

DOM DEVELOPMENT S.A. CAPITAL GROUP

REPORT BY THE SUPERVISORY BOARD OF DOM DEVELOPMENT S.A.

ON THE ASSESSMENT OF:

- **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020,**
- **CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020,**
- **MANAGEMENT BOARD'S REPORTS OF ACTIVITIES OF DOM DEVELOPMENT S.A. AND ITS CAPITAL GROUP IN 2020**



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1 ASSESSMENT OF THE FINANCIAL STATEMENTS AND MANAGEMENT BOARD'S REPORT OF ACTIVITIES

1.1 SCOPE OF THE ASSESSMENT

The Supervisory Board of Dom Development S.A. with its registered office in Warsaw examined and assessed:

a) Financial statements for the year ended 31 December 2020

The financial statements for the year ended 31 December 2019 prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, of Dom Development S.A. with its registered office at Pl. Piłsudskiego 3 in Warsaw ("Company"), consisting of:

- balance sheet prepared as at 31 December 2020 with the balance of assets and liabilities in the amount of PLN 2 755 456 thousand;
- income statement for the twelve-month period ended 31 December 2020 showing a net profit of PLN 264 217 thousand;
- statement of comprehensive income for the twelve-month period ended 31 December 2020 showing a net comprehensive income of PLN 262 787 thousand;
- cash flow statement for the twelve-month period ended 31 December 2020 with the PLN 531 841 thousand net cash and cash equivalents as at 31 December 2020;
- statement of changes in shareholders' equity in the twelve-month period ended 31 December 2020 showing the PLN 1 152 196 thousand balance of shareholders' equity as at 31 December 2020;
- additional notes to the financial statements.

b) consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2020

The consolidated financial statements for the year ended on 31 December 2020 prepared in accordance with IFRS, of Dom Development S.A. Capital Group, where Dom Development S.A. with its registered office at pl. Piłsudskiego 3 in Warsaw is the parent company, consisting of:

- consolidated balance sheet prepared as at 31 December 2020 with the balance of assets and liabilities in the amount of PLN 3 253 210 thousand;
- consolidated income statement for the twelve-month period ended 31 December 2020 showing a net profit of PLN 302 246 thousand;
- consolidated statement of comprehensive income for the twelve-month period ended 31 December 2020 showing a net comprehensive income of PLN 300 816 thousand;
- consolidated cash flow statement for the twelve-month period ended 31 December 2020 with the PLN 585 664 thousand net cash and cash equivalents as at 31 December 2020;
- consolidated statement of changes in shareholders' equity in the twelve-month period ended 31 December 2020 showing the PLN 1 157 471 thousand balance of shareholders' equity as at 31 December 2020;
- additional notes to the financial statements.

c) Management Board's reports of activities of Dom Development S.A. and its capital group in 2020

1.2 FINANCIAL STATEMENTS AUDIT

The financial statements and the consolidated financial statements for the year ended on 31 December 2020 were audited on the basis of an agreement between Dom Development S.A. and PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. (*limited partnership*) with its registered office in Warsaw at ul. Polna 11, listed by the National Council of Statutory Auditors under number 144. The agreement continued in force and effect based on resolution no. 01/03/20 adopted on 20 March 2020 by the Supervisory Board of Dom Development S.A.

The audit was carried out by the Certified Auditor in accordance with:

- a) the Act of 11 May 2017 on statutory auditors, audit firms and public supervision,
- b) National Auditing Standards in the wording of the International Standards on Auditing, as adopted by resolution no. 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015, as amended,
- c) Regulation No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

1.3 ASSESSMENT BY THE SUPERVISORY BOARD

In the opinion of the Supervisory Board:

- a) The financial statements for the year ended on 31 December 2020:
 - give a true and fair view of the assets and financial position of Dom Development as at 31 December 2020, as well as its financial result and cash flow for the period from 1 January 2020 to 31 December 2020,
 - has been prepared in accordance with IFRS,
 - are consistent with the laws and regulations regulating the preparation of financial statements and affecting the presentation and content of the financial statements,
 - were prepared in line with the books, documents and the facts, and in accordance with the provisions of law;
- b) The consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2020:
 - give a true and fair view of the assets and financial position of Dom Development S.A. Capital Group as at 31 December 2020, as well as its financial result and cash flow for the period from 1 January 2020 to 31 December 2020,
 - has been prepared in accordance with IFRS,
 - are consistent with the laws and regulations regulating the preparation of consolidated financial statements and affecting the presentation and content of the financial statements,
 - were prepared in line with the books, documents and the facts, and in accordance with the provisions of law.
- c) Management Board's reports of activities of Dom Development S.A. and its capital group in 2020:
 - is complete in accordance with the meaning of art. 49 of the Accounting Act and the Regulation by the Minister of Finance dated 29 March 2018 on the current and periodic submissions by securities issuers and the terms of confirming equivalency of information required under the regulations of a non-Member State. The information contained in the Management Board's report of activities of the Dom Development S.A. Capital Group, is consistent with the information contained in the audited financial statements and the audited consolidated financial statements,
 - were prepared in line with the books, documents and the facts, and in accordance with the provisions of law.

2 ASSESSMENT OF THE POSITION OF DOM DEVELOPMENT S.A.

ASSESSMENT OF THE POSITION OF THE COMPANY BASED ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 AND THE MANAGEMENT BOARD'S REPORTS OF ACTIVITIES OF DOM DEVELOPMENT S.A. AND ITS CAPITAL GROUP IN 2020

2.1 SIGNIFICANT SHAREHOLDERS IN DOM DEVELOPMENT S.A.

THE SHAREHOLDERS OF DOM DEVELOPMENT S.A. WHO HELD, BOTH DIRECTLY OR INDIRECTLY THROUGH SUBSIDIARIES, AT LEAST 5% OF THE OVERALL NUMBER OF VOTES AT THE GENERAL SHAREHOLDERS' MEETING AS AT 31 DECEMBER 2020

As at 31 December 2020 the parent company Dom Development S.A. was controlled by Groupe Belleforêt S.à r.l. with its registered office in Luxembourg which held 56.13% of the Company's shares.

The table below shows the list of shareholders who have, directly or indirectly through subsidiaries, significant shareholdings as at 31 December 2020.

| | SHARES | % SHARES | NUMBER OF VOTES AT THE GSM | % VOTES AT THE GSM |
|-----------------------------------|-------------------|--------------|----------------------------|--------------------|
| Groupe Belleforêt S.à r.l. | 14 155 491 | 56.13 | 14 155 491 | 56.13 |
| Aviva OFE* | 1 613 219 | 6.40 | 1 613 219 | 6.40 |
| Jarosław Szanajca | 1 454 050 | 5.77 | 1 454 050 | 5.77 |
| Grzegorz Kiełpsz | 1 280 750 | 5.08 | 1 280 750 | 5.08 |

*) Shareholding by Aviva Otwarty Fundusz Emerytalny Aviva Santander (open-end pension fund) has been presented as per the latest notice as of 31 December 2020. The shareholding by AVIVA OFE is 1 313 383 shares in the Company as per the latest notice prepared as of 11 July 2011 .

2.2 EVALUATION OF BASIC ECONOMIC AND FINANCIAL FIGURES DISCLOSED IN THE ANNUAL FINANCIAL STATEMENTS OF DOM DEVELOPMENT S.A. FOR 2020

2.2.1 BALANCE SHEET

STRUCTURE OF THE COMPANY'S ASSETS AS AT 31 DECEMBER 2020, AND CHANGES COMPARED TO THE FIGURES AS AT THE END OF 2019.

| ASSETS | 31.12.2020 in thousand PLN | Share in assets | 31.12.2019 in thousand PLN | Change 2020/2019 |
|---|----------------------------------|--------------------|----------------------------------|---------------------|
| Total fixed assets | 463 400 | 17% | 516 467 | (10)% |
| Current assets | | | | |
| Inventory | 1 641 331 | 59% | 1 736 487 | (5)% |
| Trade and other receivables | 103 586 | 4% | 26 531 | 290% |
| Other current assets | 2 940 | <1% | 3 085 | (5)% |
| Cash and cash equivalents and Short-term financial assets | 544 199 | 20% | 229 622 | 137% |
| Total current assets | 2 292 056 | 83% | 1 995 725 | 15% |
| Total assets | 2 755 456 | 100% | 2 512 192 | 10% |

STRUCTURE OF THE COMPANY'S SHAREHOLDERS' EQUITY AND LIABILITIES AS AT 31 DECEMBER 2020, AND CHANGES COMPARED TO THE FIGURES AS AT THE END OF 2019.

| EQUITY AND LIABILITIES | 31.12.2020 in thousand PLN | Share in assets | 31.12.2019 in thousand PLN | Change 2020/2019 |
|--|---|----------------------------|---|-----------------------------|
| Shareholders' equity | | | | |
| Share capital | 25 218 | 1% | 25 068 | 1% |
| Share premium less treasury shares | 251 038 | 9% | 245 188 | 2% |
| Reserve and supplementary capitals, and accumulated unappropriated profit (loss) | 875 940 | 32% | 846 729 | 3% |
| Total shareholders' equity | 1 152 196 | 42% | 1 116 985 | 3% |
| Liabilities | | | | |
| Total long-term liabilities | 382 473 | 14% | 361 018 | 6% |
| Total short-term liabilities | 1 220 787 | 44% | 1 034 189 | 18% |
| Total liabilities | 1 603 260 | 58% | 1 395 207 | 15% |
| Total equity and liabilities | 2 755 456 | 100% | 2 512 192 | 10% |

2.2.2 INCOME STATEMENT

Selected data from the income statement of the Company for the year ended 31 December 2020 compared to 2019:

| | 01.01- 31.12.2020 in thousand PLN | Share in sales revenue | 01.01- 31.12.2019 in thousand PLN | Change 2020/2019 |
|------------------------------------|--|-----------------------------------|--|-----------------------------|
| Sales revenue | 1 255 689 | 100% | 1 353 580 | (7)% |
| Cost of sales | 870 415 | 69% | 951 786 | (9)% |
| Gross profit on sales | 385 274 | 31% | 401 794 | (4)% |
| Operating profit | 254 391 | 20% | 272 234 | (7)% |
| Profit before tax | 314 009 | 25% | 358 898 | (13)% |
| Net profit | 264 217 | 21% | 304 665 | (13)% |
| Earnings per share (in PLN) | 10,49 | - | 12,16 | (14)% |

In 2020, the Company recognised sales revenue of PLN 1 255 689 thousand, i.e. 7% less than the previous year. This decrease is due to a 35% drop in the volume of finished unit deliveries, which in 2020 was 1 807 units compared to 2 798 a year earlier.

The decline in Profit before tax by approx. 13% predominantly resulted from the decrease in the result on financial operations of the Company, mainly due to lower dividend from subsidiaries (PLN 67 635 thousand in 2020 as compared to PLN 88 266 thousand a year earlier).

2.2.3 CASH FLOW STATEMENT

| | 2020 in thousand PLN | 2019 in thousand PLN | Change 2020/2019 |
|--|-------------------------------------|-------------------------------------|-----------------------------|
| Cash and cash equivalents – opening balance | 220 111 | 209 393 | 5% |
| Net cash flow from operating activities | 443 874 | 256 480 | 73% |
| Net cash flow from investing activities | 91 431 | (22 393) | n.a. |
| Net cash flows from financing activities | (223 575) | (223 369) | <1% |
| Cash and cash equivalents – closing balance | 531 841 | 220 111 | 142% |

Cash balances amounted to PLN 220 111 thousand at the beginning of 2020 and PLN 531 841 thousand at the end of the year. Therefore in the period from 1 January until 31 December 2020 the balance of cash increased by PLN 311 730 thousand.

In 2020, the Company recorded a net inflow of cash from the operating activities amounting to PLN 443 874 thousand that is 73% more than in the preceding year.

In 2020, the Company recorded net inflow of funds from investing activities amounting to PLN 91 431 thousand compared to PLN 22 393 thousand net outflow in the preceding year. This difference is mainly attributed to the balance of cash flows from granted loans, net inflow of PLN 21 351 thousand in 2020 compared to net outflow of PLN 96 034 thousand in 2019.

In 2020, the Company recorded a net cash outflow from the financing activities in the amount of PLN 223 575 thousand. ie. at the level similar to that a year before. The excess of financial outflow over the inflow is mainly due to the payment of dividends by the Company in the amount of PLN 226 869 thousand.

2.2.4 PROFITABILITY RATIOS

The Company's profitability in 2020 remained strong. All ratios showing profitability of the business activity pursued by the Company in 2019 have improved compared to the previous year. Gross margin on sales went up by 1 percentage point to 30.7%.

At the operational level, the Company's profitability in 2020 was close to that recorded in the previous year of 20.3%. The Company's net margin in 2020 was 21%. The decreased net profit compared to 2019 has translated into a slight decrease of net profit margin and a corresponding fall in return on assets and equity. However, in the opinion of the Supervisory Board, the level of Company's profitability was very satisfactory, and speaks for effective management of the Company's assets.

| PROFITABILITY RATIOS | 2020 | 2019 |
|--|-------|-------|
| Gross margin ratio (gross profit on sales / net sales revenue) | 30.7% | 29.7% |
| Operating profit margin (EBIT / net sales revenue) | 20.3% | 20.1% |
| Net profit margin (net profit / net sales revenue) | 21.0% | 22.5% |
| Return on assets (ROA; net profit / total assets at the beginning of the period) | 10.5% | 13.4% |
| Return on equity (ROE; net profit / shareholders' equity at the beginning of the period) | 23.7% | 29.6% |

2.2.5 LIQUIDITY RATIOS

Special attention should be given to the fact that high financial liquidity has continued to be adequately maintained by the Company.

All the liquidity ratios presented below at the end of 2020 were improved on the previous year, thus demonstrating the safe position of the Company and its investment potential. The increased liquidity at the Company results mainly from 142% increase in cash balances, as presented in point 2.2.3 of this Report.

Such consistently good liquidity ratios are due to a number of long-term decisions and actions taken by the Company's Management Board. These high ratios to a high extent result from the relevant financing structure applied, that is predominantly medium-term and long-term, as opposed to short-term financing. The liquidity ratios are driven by decisions around financing of current investments (including decisions when to commence the construction of individual projects and concerning the product mix offered for sale) and the strategy of acquiring new land.

The credibility of the Company in the financial market is high which is reflected by a diversified financing structure and by the willingness of banks as well as other financial institutions to grant new loans and other forms of long-term finance (such as bonds) to the Company.

| LIQUIDITY RATIOS | 2020 | 2019 |
|--|------|------|
| Current ratio (current assets / short-term liabilities*) | 4.89 | 4.17 |
| Quick ratio (current assets less inventory / short-term liabilities*) | 1.39 | 0.54 |
| Cash ratio (cash and cash equivalents**) / short-term liabilities*) | 1.13 | 0.46 |

*Short-term liabilities less deferred income

**)Cash and cash equivalents including with a maturity of more than 3 months

2.2.6 LEVERAGE RATIOS

Appropriate operating policy (i.e. proper commencement and pace of projects as well as controlled purchases of land) and financing policy (the financing structure) ensured that the leverage ratios were maintained at safe levels to support the business activity and maintain the Company's creditworthiness. The leverage ratios at the end of 2020 were very similar to those at the end of 2019 reflecting the conservative approach of the Company's governing bodies to the sourcing of finance for operations. A significant change was noted only for the net interest bearing debt to equity ratio, which was negative at the end of 2020 at (15.1)%. This change is due to an increase in the cash balance as described in point 2.2.3 of this Report which resulted from the Company's cash balances exceeding its outstanding debt. In the opinion of the Supervisory Board, the level and structure of Company's debt have remained at the level appropriate for the operations of the Company and the market environment.

| LEVERAGE RATIOS | 2020 | 2019 |
|---|---------|--------|
| Equity ratio (shareholders' equity / total assets) | 41.8% | 44.5% |
| Debt to equity ratio (total liabilities / shareholders' equity) | 139.1% | 124.9% |
| Debt ratio (total liabilities / total assets) | 58.2% | 55.5% |
| Interest bearing debt ratio (interest bearing liabilities / shareholders' equity) | 32.1% | 32.2% |
| Net interest bearing debt to equity ratio (interest bearing liabilities less cash and cash equivalent*) / shareholders' equity) | (15.1)% | 11.7% |

*) Cash and cash equivalents, including funds in escrow accounts and bank deposits with a maturity of more than 3 months

2.2.7 SUMMARY AND ASSESSMENT

On the basis of the financial statements of Dom Development S.A. for the financial year 2020 and the Management Board's report on the activities of the Company and its Capital Group for the financial year 2020, the Supervisory Board considers 2020 to have been another very good year for Dom Development S.A., in particular, in the context of an extremely volatile and demanding market situation during that period.

In 2020, the Company's financial management was focused on seeking sources of long-term external financing for the projects under construction and on maintaining more-than-adequate levels of liquidity. The Management Board regularly analyses the current financing structure and makes plans for the future optimum financing structure in order to achieve satisfactory financial ratios and financial results over the medium term, and at the same time, ensuring adequate liquidity and the financial security of the Company.

Following the Company's very good results in 2020 and having favourable trends in the residential market, the prospects for 2021 are also promising for developers, who have sufficient experience and resources to leverage the opportunities offered by the market and limit the negative impact of the unstable situation in the wider economic environment caused by the COVID-19 epidemic that has been continuing since March 2020.

The housing market will mainly be driven by macroeconomic factors such as interest rates and inflationary expectations that strongly support the real estate market, as well as the situation in the labour market and potential legislative hurdles.

The major responsibility of the Management Board is not only to ensure that the Company is prepared to react quickly to new challenges but most of all to be able to maintain the leading position in the Warsaw residential market. The major steps undertaken in this respect included:

- ensuring that adequate sources of finance are available to the Company, both for current and future development projects;
- co-operation with banks, and assisting customers in obtaining mortgages for the purchase of apartments;
- adjusting the Company's sales offer to the market demand;
- aligning land purchases to the Company's existing and future needs;
- utilising the existing land bank in the most appropriate manner;
- generating sales by improving the sales and marketing processes;
- maintaining customer confidence in the 'Dom Development' brand by maintaining quality;

- restructuring the organization and employment levels to the anticipated level of operational activities;
- optimising overhead efficiency; and
- responding to legislative changes.

In 2020, the activities of the Company generated a significant profit as shown by the income statement.

Having analysed the financial statements for 2020 and the Management Board's report of activities of the Company and its Capital Group in 2020, the Supervisory Board shares the opinion of the Management Board as to the strong financial position of Dom Development S.A. at the end of 2020, that provides solid foundations for the continuing development of the Company.

This opinion is based on both the analysis of current operations and the financial standing of the Company, and the analysis of the Management Board's activities and effectiveness of these activities. It relates predominantly to the prompt, effective and professional reaction of the Management Board to changes in the market where the Company has been operating in recent years.

Over the years, the Company has developed an established position as the leader in the Warsaw residential market, gaining considerable experience in terms of execution of development projects as well as the sale and financing of these projects.

The Supervisory Board also appreciates the commitment of the Management Board of the Company in 2020 to the matters relating to the internal control and risk management systems of the Company.

3 ASSESSMENT OF THE POSITION OF DOM DEVELOPMENT S.A. CAPITAL GROUP

ASSESSMENT OF THE POSITION OF THE DOM DEVELOPMENT S.A. CAPITAL GROUP BASED ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 December 2020 AND THE MANAGEMENT BOARD'S REPORT OF ACTIVITIES OF DOM DEVELOPMENT S.A. AND ITS CAPITAL GROUP IN 2020

3.1 SIGNIFICANT SHAREHOLDERS IN DOM DEVELOPMENT S.A.

THE SHAREHOLDERS OF DOM DEVELOPMENT S.A. WHO HELD, BOTH DIRECTLY OR INDIRECTLY THROUGH SUBSIDIARIES, AT LEAST 5% OF THE OVERALL NUMBER OF VOTES AT THE GENERAL SHAREHOLDERS' MEETING AS AT 31 DECEMBER 2020

As at 31 December 2020 the Group was controlled by Groupe Belleforêt S.à r.l. with its registered office in Luxembourg which held 56.13% shares of Dom Development S.A.

The table below shows the list of shareholders who have, directly or indirectly through subsidiaries significant shareholdings as at 31 December 2020.

| | SHARES | % SHARES | NUMBER OF VOTES AT THE GSM | % VOTES AT THE GSM |
|-----------------------------------|-------------------|--------------|----------------------------|--------------------|
| Groupe Belleforêt S.à r.l. | 14 155 491 | 56.13 | 14 155 941 | 56.13 |
| Aviva OFE* | 1 613 219 | 6.40 | 1 613 219 | 6.40 |
| Jarosław Szanajca | 1 454 050 | 5.77 | 1 454 050 | 5.77 |
| Grzegorz Kielpsz | 1 280 750 | 5.08 | 1 280 750 | 5.08 |

*) Shareholding by Aviva Otwarty Fundusz Emerytalny Aviva Santander (open-end pension fund) has been presented as per the latest notice as of 31 December 2020. The shareholding by AVIVA OFE is 1,313 383 shares in the Company as per the latest notice prepared as of 11 July 2011 .

3.2 EVALUATION OF BASIC ECONOMIC AND FINANCIAL FIGURES DISCLOSED IN THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS OF DOM DEVELOPMENT S.A. CAPITAL GROUP FOR 2020

3.2.1 CONSOLIDATED BALANCE SHEET

STRUCTURE OF THE GROUP'S ASSETS AS AT 31 DECEMBER 2020, AND CHANGES COMPARED TO THE FIGURES AS AT THE END OF 2019.

| ASSETS | 31.12.2020 in thousand PLN | Share in assets | 31.12.2019 in thousand PLN | Change 2020/2019 |
|---|----------------------------------|--------------------|----------------------------------|---------------------|
| Total fixed assets | 70 758 | 2% | 68 847 | 3% |
| Current assets | | | | |
| Inventory | 2 423 514 | 74% | 2 509 632 | (3)% |
| Trade and other receivables | 117 603 | 4% | 62 584 | 88% |
| Other current assets | 5 208 | <1% | 4 968 | 5% |
| Cash and cash equivalents and Short-term financial assets | 636 127 | 20% | 314 905 | 102% |
| Total current assets | 3 182 452 | 98% | 2 892 089 | 10% |
| Total assets | 3 253 210 | 100% | 2 960 936 | 10% |

STRUCTURE OF THE GROUP'S SHAREHOLDERS' EQUITY AND LIABILITIES AS AT 31 DECEMBER 2020, AND CHANGES COMPARED TO THE FIGURES AS AT THE END OF 2019.

| EQUITY AND LIABILITIES | 31.12.2020 in thousand PLN | Share in assets | 31.12.2019 in thousand PLN | Change 2020/2019 |
|--|----------------------------------|--------------------|----------------------------------|---------------------|
| Shareholders' equity | | | | |
| Share capital | 25 218 | 1% | 25 068 | 1% |
| Share premium less treasury shares | 251 038 | 8% | 245 188 | 2% |
| Reserve and supplementary capitals, and accumulated unappropriated profit (loss) | 881 177 | 27% | 813 941 | 8% |
| Total shareholders' equity | 1 157 433 | 36% | 1 084 197 | 7% |
| Non-controlling interests | 38 | <1% | 34 | 12% |
| Total shareholders' equity | 1 157 471 | 36% | 1 084 231 | 7% |
| Liabilities | | | | |
| Total long-term liabilities | 431 003 | 13% | 469 015 | (8)% |
| Total short-term liabilities | 1 664 736 | 51% | 1 407 690 | 18% |
| Total liabilities | 2 095 739 | 64% | 1 876 705 | 12% |
| Total equity and liabilities | 3 253 210 | 100% | 2 960 936 | 10% |

3.2.2 CONSOLIDATED INCOME STATEMENT

Consolidated income statement of the Group for the year ended 31 December 2020 compared to 2019:

| | 01.01- 31.12.2020 in thousand PLN | Share in sales revenue | 01.01- 31.12.2019 in thousand PLN | Change 2020/2019 |
|------------------------------------|--|---------------------------|--|---------------------|
| Sales revenue | 1 815 012 | 100% | 1 661 721 | 9% |
| Cost of sales | 1 236 233 | 68% | 1 161 601 | 6% |
| Gross profit on sales | 578 779 | 32% | 500 120 | 16% |
| Operating profit | 386 267 | 21% | 320 690 | 20% |
| Profit before tax | 378 627 | 21% | 320 482 | 18% |
| Net profit | 302 246 | 17% | 256 018 | 18% |
| Earnings per share (in PLN) | 12.00 | - | 10.22 | 17% |

In 2020 the Group recognized the highest financial result in its history at the level of PLN 302 246 thousand, i.e. an increase of 18% over the previous year, which at that time had also been a record-breaking year. Such a good result was mainly due to an increase in sales revenues of 9% resulting from a higher average value of units recognized in the year, which went up from PLN 477 thousand to PLN 604 thousand, i.e. by 27%, and the increase in the profitability of sales which translated into a higher growth of consolidated gross profit from sales (by 16% YoY). This directly impacted the consolidated operating profit and profit before tax of the Group which rose by 20% and 18% respectively in 2020 compared to 2019.

3.2.3 CONSOLIDATED CASH FLOW STATEMENT

| | 2020 in thousand PLN | 2019 in thousand PLN | Change 2020/2019 |
|--|----------------------------|----------------------------|---------------------|
| Cash and cash equivalents – opening balance | 253 318 | 282 492 | (10)% |
| Net cash flow from operating activities | 679 320 | 162 055 | 319% |
| Net cash flow from investing activities | (38 142) | (17 578) | n.a. |
| Net cash flows from financing activities | (308 832) | (173 651) | n.a. |
| Cash and cash equivalents – closing balance | 585 664 | 253 318 | 131% |

Cash balances amounted to PLN 253 318 thousand at the beginning of 2020 which had risen to PLN 585 664 thousand by the end of the year. Therefore in the period from 1 January until 31 December 2020 the consolidated balance of cash increased by PLN 332 346 thousand.

In 2020, the Group recorded a net inflow of cash from the operating activities amounting to PLN 679 320 thousand which is 319% more than in the preceding year. The main reason for the increase in operating cash flows was the PLN 125 740 thousand decrease in inventory against the PLN 393 109 thousand increase in 2019. This change is temporary and is a consequence of the deferred closing of land purchase transaction for future projects of the Group.

The Group recorded a slight net outflow of cash from investing activities in the amounting to PLN 38 142 thousand.

In 2020, the Group recorded a net cash outflow from the financing activities amounting to PLN 308 832 thousand compared to a PLN 173 651 thousand outflow in 2019. This amount was mainly due to the payment by the Company of a record-high dividend of PLN 239 575 thousand and the net repayment of loans amounting to PLN 75 000 thousand..

3.2.4 PROFITABILITY RATIOS

The ratios showing profitability of the business activity pursued by the Group in 2020 have improved compared to the previous year. The Group's return on assets at 10.2% remained at a similar level to the preceding year. Special attention should be given to the very high Group's return on equity (ROE), which reached 27.9% in 2020.

| PROFITABILITY RATIOS | 2020 | 2019 |
|--|-------|-------|
| Gross margin ratio (gross profit on sales / net sales revenue) | 31.9% | 30.1% |
| Operating profit margin (EBIT / net sales revenue) | 21.3% | 19.3% |
| Net profit margin (net profit / net sales revenue) | 16.7% | 15.4% |
| Return on assets (ROA; net profit / total assets at the beginning of the period) | 10.2% | 10.1% |
| Return on equity (ROE; net profit / shareholders' equity at the beginning of the period) | 27.9% | 24.5% |

3.2.5 LIQUIDITY RATIOS

Special attention should be given to the fact that high financial liquidity has continued to be maintained by the Group.

All the liquidity ratios presented below improved in 2020 compared to the previous year, thus demonstrating the safe position of the Group companies as well as their potential to invest. The increased liquidity at the Group results mainly from a 131% increase in cash balance, as presented in point 3.2.3 of this Report.

Such consistently good liquidity ratios are due to a number of long-term decisions and actions taken by the Company's Management Board and the management boards of its subsidiaries. These high ratios to a high extent result from the relevant financing structure applied, that is predominantly medium-term and long-term, as opposed to short-term financing. The liquidity ratios are driven by decisions around financing of current investments (including decisions when to commence the construction of individual projects and concerning the product mix offered for sale) and the strategy of acquiring new land.

The credibility of the Company and the Group in the financial market is high which is reflected by a diversified financing structure and by the willingness of banks as well as other financial institutions to grant new loans and other forms of long-term finance (such as bonds) to the Company.

| LIQUIDITY RATIOS | 2020 | 2019 |
|---|------|------|
| Current ratio (current assets / short-term liabilities*) | 5.75 | 5.04 |
| Quick ratio (current assets less inventory / short-term liabilities*) | 1.37 | 0.67 |
| Cash ratio (cash and cash equivalents**) / short-term liabilities*) | 1.06 | 0.44 |

*Short-term liabilities less deferred income

**Cash and cash equivalents including with a maturity of more than 3 months

3.2.6 LEVERAGE RATIOS

Appropriate operating policy (i.e. proper commencement and pace of projects as well as controlled purchases of land) and financing policy (the financing structure) ensured that the leverage ratios were maintained at safe levels to support the business activity and maintain the creditworthiness of the Company and its Capital Group. The leverage ratios at the end of 2020 were very similar to those at the end of 2019, reflecting the conservative approach of the Company's Management Board to the sourcing of finance for the operations of the Group. A significant change was noted only for the net interest bearing debt ratio, which was negative at the end of 2020 at (23)% which resulted from the Group's cash balances exceeding its outstanding debt. This change is mainly due to an increase in the cash balance as described in point 3.2.3 of this Report. In the opinion of the Supervisory Board, the level and structure of Groups's debt has remained at the level appropriate for the operations of the Group and the situation in the market environment.

| LEVERAGE RATIOS | 2020 | 2019 |
|--|---------|--------|
| Equity ratio (shareholders' equity / total assets) | 35.6% | 36.6% |
| Debt to equity ratio (total liabilities / shareholders' equity) | 181.1% | 173.1% |
| Debt ratio (total liabilities / total assets) | 64.4% | 63.4% |
| Interest bearing debt ratio (interest bearing liabilities / shareholders' equity) | 32.0% | 41.0% |
| Net interest bearing debt to equity ratio (interest bearing liabilities less cash and cash equivalent*) / shareholders' equity) | (23.0)% | 14.3% |

*1) Cash and cash equivalents, including funds in escrow accounts and bank deposits with a maturity of more than 3 months

3.2.7 SUMMARY AND ASSESSMENT

On the basis of the consolidated financial statements of Dom Development S.A. Capital Group for the financial year 2020 and the Management Board's report on the activities of the Company and its Capital Group for the financial year 2020, the Supervisory Board considers the year 2020 as another very good year for Dom Development S.A. Capital Group, in particular, in the context of an extremely volatile and demanding market situation in that period.

In 2020, the Group's financial management was focused on seeking sources of long-term external financing for the projects under construction and on maintaining more-than-adequate levels of liquidity. The Management Board of Dom Development S.A. and management boards of its subsidiaries operating within the Group regularly analyse the current financing structure and make plans for the future optimum financing structure in order to achieve satisfactory financial ratios and financial results over the medium term, and at the same time, ensuring adequate liquidity and the financial security of the Group.

Following the Group's very good results in 2020 and having favourable trends in the residential market, the prospects for 2021 are also promising for developers, who have sufficient experience and resources to leverage the opportunities offered by the market and limit the negative impact of the unstable situation in the wider economic environment caused by the COVID-19 epidemic that have been continuing since March 2020.

The housing market will mainly be driven by macroeconomic factors such as interest rates and inflationary expectations that strongly support the real estate market, as well as the situation in the labour market and potential legislative hurdles.

The major responsibility of the Management Board of the Company is not only to ensure that the Group is prepared to react quickly to new challenges but most of all to maintain its leading position in the residential market in Poland. The major steps undertaken in this respect included:

- ensuring that adequate sources of finance are available to the Group companies, both for current and future development projects;
- co-operation with banks, and assisting customers in obtaining mortgages for the purchase of apartments;
- adjusting the Group's sales offer to the market demand;
- aligning land purchases to the Group's existing and future needs;
- utilising the existing land bank in the most appropriate manner;
- generating sales by improving the sales and marketing processes;
- maintaining customer confidence in the Dom Development and Euro Styl brands by maintaining quality;
- restructuring the organization and employment levels to the anticipated level of operational activities;
- optimising overhead efficiency; and
- responding to legislative changes.

In 2020 the activities of the Group generated a significant profit as shown by the income statement.

Having analysed the consolidated financial statements for 2020 and the Management Board's consolidated report of activities of the Company and its Capital Group in 2020, the Supervisory Board shares the opinion of the Management Board as to the strong financial position of Dom Development S.A. Capital Group at the end of 2020, that provides solid foundations for the continuing development of the Group.

This opinion is based on both the analysis of current operations and financial standing of the Group and the analysis of the activities of the Management Board of the Company and the management boards of its subsidiaries, and the

effectiveness of these activities. It relates predominantly to the prompt, effective and professional reaction to changes in the markets where the Group has been operating in recent years.

With its extensive experience in the design, development, sale and financing of development projects, the Group has built a well-established position in the residential market in Poland. In 2020, the Group increased its market share in all three agglomerations, in which it operates – in Warsaw, Tri-City and Wroclaw. It has been an undisputed leader in the Warsaw market, and took a leading position in the Tri-City market for the first time.

The Supervisory Board also appreciates the commitment of the Management Board of the Company in 2020 to the matters relating to the internal control and risk management systems in the Group.

4 PROPOSALS TO THE GENERAL SHAREHOLDERS' MEETING OF DOM DEVELOPMENT S.A.

Having examined the submitted statements and reports for the financial year 2020, the Supervisory Board issues a positive opinion on the following documents and recommends that the Ordinary General Shareholders' Meeting of Dom Development S.A. approves:

- Financial statements for the year ended on 31 December 2020;
- Management Board's Report of activities of Dom Development S.A. and its capital group in 2020;
- Consolidated financial statements of Dom Development S.A. Capital Group for the year ended on 31 December 2020.

5 REPRESENTATIONS BY THE SUPERVISORY BOARD

The Supervisory Board of Dom Development Spółka Akcyjna with its registered office in Warsaw represents that:

- the selection of PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp. k. with its registered office in Warsaw for the purpose of performing a statutory audit on the annual financial statements of Dom Development S.A. for 2020 and the annual consolidated financial statements of Dom Development S.A. Capital Group for 2020 (the "Audit") was done in accordance with the laws, rules and procedures applicable to the selection of an audit firm,
- the audit firm, i.e. PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp. k. with its registered office in Warsaw and the individual members of its audit team fulfilled the requirements for preparing an impartial and independent report on the Audit in accordance with applicable laws, professional best practices and rules of professional conduct,
- Dom Development S.A. has complied with the regulations in force regarding the rotation of audit firms and of the key audit partner, and regarding mandatory cooling-off periods,
- Dom Development S.A. applies an audit firm selection policy and a policy on non-audit services (including conditionally-exempted services) rendered by the audit firm, by its affiliate, or by a member of its network,
- Dom Development S.A. has complied with the regulations in force regarding the appointment, composition and functioning of its Audit Committee, including rules related to independence, and to have the necessary knowledge and skills as regards both the industry in which the Company operates, and as regards the accounting and auditing of financial statements,
- the Company's Audit Committee has performed all the audit committee tasks required by the applicable regulations.

This Report was adopted by the Supervisory Board of Dom Development S.A. on 10 March 2021.